Inland Revenue

Notes on LAND AND PROPERTY

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HELP SHEETS AND LEAFLETS

Help Sheets and leaflets giving more detailed information about particular tax rules for land and property are available from the Orderline.

- *IR87: Letting and your home. Including the 'Rent a Room' scheme and letting your previous home when you live elsewhere*
- *IR140: Non-resident landlords, their agents and tenants*
- *IR150: Taxation of rents. A guide to property income*
- *IR223: Rent a Room for traders*
- *IR250: Capital allowances and balancing charges in a rental business*
- *IR251: Agricultural land and 'land managed as one estate'*

Filling in the Land and Property Pages

The Land and Property Pages apply both to rental businesses with numerous properties, and to individuals who may simply have one property to rent or take a lodger in their own home. Complete them if you have:

- rental income and other receipts from land and property in the UK, **or**
- chargeable premiums arising from leases of land in the UK, **or**
- furnished holiday lettings in the UK, **or**
- a reverse premium.

If you received income from property as part of your income from a partnership, do not include it in the Land and Property Pages. Instead, enter your share in the Partnership Pages (Full), available from the Orderline.

Do not include income from land or property overseas. Use the Foreign Pages, available from the Orderline, instead.

There are certain receipts that arise out of the use of land that should not be included in the Land and Property Pages. If you run one of the following types of business, you must fill in the Self-employment Pages:

- canals, inland navigations and docks
- mines and quarries, including sand pits, gravel pits and brickfields
- rights of markets and fairs, tolls, bridges and ferries.

This list is not comprehensive. If you do not know whether to include a particular sum, ask your Inland Revenue office or tax adviser.

Gather together:

- records of rent received
- records of expenses.

If you take lodgers into your own home, see the guidance about the Rent a Room scheme on page LN2.

If you let property other than your own home as a furnished holiday letting, follow the guidance on page LN2.

If you let property separate from your own home other than furnished holiday letting, you should follow the guidance on page LN4 about other income from land and property in the UK.

Everyone who fills in the Land and Property Pages should read the general guidance below. If you are in any doubt about whether income from land and property is taxable, or whether you can claim relief for expenses, ask the Orderline for leaflet *IR150: Taxation of rents. A guide to property income.*

■ Return period

Include in the Land and Property Pages all profits arising in the year from 6 April 2000 to 5 April 2001 from any land or property you held in the UK.

You must allocate income and expenses to the correct Return period.

If you have accounts for your property income for the period to 5 April 2001, you should transfer the figures in those accounts to the Land and Property Pages.

If you have accounts for your property income for a period ending on any other date, you should apportion figures in the sets of accounts that between them cover the year from 6 April 2000 to 5 April 2001, before putting figures on the Land and Property Pages.

Accounts are prepared for a variety of reasons and in a variety of ways. It may not be immediately obvious where you should enter some of your figures. The notes that follow are designed to give guidance in the most difficult areas but they are not intended to be hard and fast rules.

In some instances you may need to combine or apportion your figures to fit the Tax Return. If you include an expense under one heading where another may be equally appropriate, you should try to be consistent from one year to the next.

Make sure that you transfer **all** the entries in your accounts and that you include them **once** only.

If you do not have accounts, you should fill in the Land and Property Pages bearing in mind that your taxable profit should be worked out using generally accepted accountancy principles. If you need help, ask your Inland Revenue office or tax adviser.

SA105(Notes)

Rent a Room

Rent a Room can apply to you if you let furnished accommodation in your only or main home.

Sometimes the provision of furnished accommodation in your only or main home can amount to a trade, for example, if you run a guest house or a bed and breakfast business. Do not include this sort of income in the Land and Property Pages. Instead include it in the Self-employment Pages, available from the Orderline. Also ask for *Help Sheet IR223: Rent a Room for traders*.

The Rent a Room scheme does not apply to rooms let as office accommodation. However it may apply to genuine lodgers who are provided with study facilities.

Rent a Room relief cannot ordinarily be claimed when you go abroad and let your home in your absence, or where you occupy job-related accommodation and let your former home.

The exemption

Under the Rent a Room scheme, you will not be taxed on your first £4,250 of gross income (that is, income including any sums you may receive for providing services - for example, cleaning - but before expenses) from letting furnished accommodation in your only or main home. But if someone else also received income during the year from letting accommodation in the same property, you are each entitled to an exemption of £2,125.

If you share a home, you may be able to arrange your affairs in such a way that the rental income is wholly one person's, or is divided between you and the person with whom you are sharing a home. If you share the income, the exemption will be £2,125 for each of you.

Rents not exceeding £4,250 (or £2,125)

In general, if total income from this sort of letting does not exceed £4,250 (or £2,125) in the year to 5 April 2001, you will be exempt from tax under the Rent a Room scheme. All you need to do is tick the 'Yes' box on Page L1 if this applies to you.

You can opt out of the Rent a Room exemption if, for example, you made losses. To do this, tick the 'No' box and follow the instructions on page LN4 for 'Other property income'.

Rents exceeding £4,250 (or £2,125)

If your total receipts from letting furnished accommodation in your only or main home exceeded £4,250 (or £2,125) for the year to 5 April 2001, you will be able to choose between:

- paying tax on the amount by which your gross rents exceed £4,250 (or £2,125) without any separate tax relief for allowable expenses. To do this, tick the 'No' box on Page L1 and enter the gross rents in box 5.20, and the amount of the Rent a Room exemption in box 5.35, **or**
- calculating your profit from letting (gross rents *minus* allowable expenses) in the normal way. To do this, tick the 'No' box and follow the instructions on page LN4 for 'Other property income'. **If you need more information, ask the Orderline for leaflet *IR87: Letting and your home*.**

Furnished holiday lettings in the UK

Properties that are let as 'furnished holiday lettings' are treated differently from other properties for tax purposes. There are special rules that allow you to set off any loss arising from holiday lettings against all your other income, and not just against other income from property. You need to calculate the profit or loss arising from such properties separately from your other rental business income and expenses to see whether you can take advantage of these special rules.

If you have furnished holiday lettings, start by filling in Page L1 of the Land and Property Pages. Then fill in Page L2. Details of **other rental and business income and expenses** go on Page L2 (see notes under the 'Other property income' heading on page LN4).

What is a furnished holiday letting?

A letting is normally regarded as a furnished holiday letting if it is a UK property that is:

- furnished, **and**
- available for holiday letting to the public on a commercial basis for 140 days or more during the year, **and**
- actually let commercially as holiday accommodation for 70 days or more during the year, **and**
- not normally occupied continuously for more than 31 days by the same person for at least seven months of the year.

The year to consider is:

- the year ended 5 April 2001, **or**
- if you first started letting in that year, the twelve months from the date of the first letting, **or**
- if you finished letting in that year, the twelve months up to and including the date of the last letting.

If you have more than one unit of accommodation let for holiday purposes, the 70 day rule can be satisfied even if your units were not each let for 70 days, just as long as all of them satisfy the 140 day and 7 month rules. Ask your Inland Revenue office or tax adviser for further details.

- Income from furnished holiday lettings

box 5.1 Enter in box 5.1 the gross income arising from properties that qualify as holiday lettings in the UK. This includes all the rents that relate to the year ended 5 April 2001 and any monies you obtained from the provision of any services to your tenants.

Joint holiday lettings

If you own and let holiday property jointly with one or more other people, include only your share of the income in box 5.1, and your share of the expenses in boxes 5.2 to 5.7.

If you receive notice of your share after expenses have been deducted, enter your share of any profit in box 5.1 (leaving boxes 5.2 to 5.7 blank) or any loss in box 5.7. Tick box 5.47 to show that the Land and Property Pages include details of shared property, and enter the name and address of the person nominated to keep records in the 'Additional information' box on page 8 of your Tax Return.

Expenses

If your total property income in the year, including furnished holiday letting income, before expenses is less than £15,000 annually, you do not have to list expenses separately. Instead, put total expenses in box 5.7.

The following guidelines give an indication of the main types of expenses likely to arise from holiday lettings, and what usually can, or cannot, be claimed as a deduction.

Non-allowable expenses:

- personal expenses (see the notes for box 5.10 on page LN4)
- capital costs, such as expenses relating to the purchase of the land or property you intend to let; or the cost of purchasing machinery, furnishings or furniture
- any loss you make on the sale of a property.

Allowable expenses:

- in general, any costs you incur for the sole purpose of earning business profits
- you may be able to claim capital allowances or a renewals deduction on the cost of buying a capital asset.

Remember that the expenses must be allocated to the correct Return period and it may be necessary to apportion certain expenses to arrive at the correct amount.

If you include any expenses in boxes 5.2 to 5.7, make sure that you do not include them again in boxes 5.24 to 5.29 on Page L2.

- Rent, rates, insurance, ground rents etc.

box 5.2 Any rent you pay under a lease of a property which you let to someone else as a furnished holiday letting can be deducted in working out your business profits.

Other expenses connected with the property such as business rates, Council Tax, water rates, ground rents or feu duties are also allowable. Enter in box 5.2 the total of these expenses incurred in the period for all properties in your business.

Also include in box 5.2 any expenses you must incur as landlord to insure the furnished holiday letting and its contents.

Insurance against loss of rents is also an allowable cost but you must include in box 5.1 any income you receive as a result of taking out such an insurance. Insurances that extend beyond your rental business, such as personal policies or those insuring your private belongings, are not allowable costs.

- Repairs, maintenance and renewals

box 5.3

Repairs and maintenance

Expenses that prevent the property from deteriorating can be deducted as a repair. Examples include exterior and interior painting, stone-cleaning, damp treatment, roof repairs, furniture repairs and repairs to lifts and other machines that form part of the property.

Where maintenance and repairs of property are made unnecessary by improvements, additions or alterations to the property, part of the outlay equal to the estimated cost of the maintenance and repairs can be claimed as an expense. No expense can be claimed, however, where:

- the alterations etc., are so extensive they amount to the reconstruction of the property, **or**
- there has been a change in the use of the property that made the maintenance or repairs unnecessary.

If you are in doubt whether any work undertaken on the property constitutes a repair or maintenance, ask your Inland Revenue office or tax adviser.

Renewals

You can claim as an expense the cost of replacing furniture, furnishings and machinery supplied with your property where capital allowances are not claimed. You can include the renewal of small items such as knives and forks. If you opt for a renewals deduction you may deduct the cost of replacing any such equipment, but not the cost of the original purchase. Deduct from the replacement cost any sum received for the item you have scrapped or sold. Also deduct any part of the replacement cost that represents an improvement or addition to the original item.

Enter in box 5.3 the total of any such expenses on renewals (and repairs and maintenance) incurred in the period for all the properties in your business. If you are in doubt about what sum to claim as a renewal, ask your Inland Revenue office or tax adviser.

- Finance charges, including interest

box 5.4 Include in box 5.4 expenses that relate to the financial side of your rental business. Costs incurred in obtaining a loan to buy a property that you let are allowable as a deduction. So is any interest incurred on the loan. If you are unsure whether any financial cost is allowable as a deduction, ask your Inland Revenue office or tax adviser.

- Legal and professional costs

box 5.5 Below are some examples of expenses you cannot deduct, and those you may.

Non-allowable expenses:

- expenses in connection with the first letting or sub-letting of a property for **more than one year**. These include, for example, legal expenses (such as the cost of drawing up the lease), agents' and surveyors' fees and commission
- any proportion of the legal etc. costs that relates to the payment of a premium on the renewal of a lease
- fees incurred in obtaining planning permission, or on the registration of title when buying a property.

Allowable expenses:

- expenses for the let of a **year or less**
- management fees relating to the on-going costs of letting (for example, rent collection etc.)
- the normal legal and professional fees you incur on the renewal of a lease, if the lease is for less than 50 years
- professional fees incurred evicting an unsatisfactory tenant, with a view to re-letting, or those on an appeal against a compulsory purchase order
- professional fees in drawing up accounts.

If you are unsure whether any legal or professional fee is allowable as a deduction, ask your Inland Revenue office or tax adviser.

- Costs of services provided, including wages

box 5.6 If, in addition to letting a property, you provide any service to your tenant (such as gardening, porterage, cleaning or even something like communal hot water) that requires a degree of maintenance and thus expense, you can claim the cost of these services to the extent that they are provided wholly and exclusively for the purposes of the letting.

You should enter in box 5.6 the total of any expenses for all properties and their associated services. If you receive any income for any service you provide, this should be included in box 5.1.

- Other expenses

box 5.7 Enter in box 5.7 all expenses incurred wholly and exclusively for the purpose of your rental business that are not already included in boxes 5.2 to 5.6. Examples include the costs of rent collection, advertising for tenants, travelling solely for business purposes, stationery, telephone calls and other miscellaneous expenses.

Remember though that personal expenses are **not** allowable. If you spend money on something only partly used for your property, you must only enter the amount expended for business purposes in box 5.7. Alternatively, enter the whole amount in box 5.7, and in box 5.10 enter the proportion of the cost that represents your personal use.

Lease premium relief

Where you (or an earlier tenant) paid a premium to your landlord when your lease was granted, and you are sub-letting the property in your property business, you may be able to claim a deduction for part of the premium paid. The relief for premiums paid is only due on amounts taxable on your landlord as income (or would be if your landlord were liable to tax). If you think you are entitled to a deduction for a premium you have paid, ask your Inland Revenue office or tax adviser. The amount of the allowable deduction should be entered in box 5.7. The notes for box 5.22 on page LN5 explain how to calculate the part of the premium which is taxable on your landlord as income.

Tax adjustments

To arrive at your taxable income (or the loss allowable for tax purposes), you need to make certain adjustments to the net profit or loss arising in the year.

- Private use

box 5.10 Private and personal expenses are not allowable. If you spend money on something used only partly for your rental business and partly for a non-business reason you must either:

- enter the amount expended for business purposes in boxes 5.2 to 5.7, **or**
- enter the whole expenses in those boxes and enter in box 5.10 the proportion of the cost that represents your personal use or the non-business element.

For example, if you let out a property for only eight months in a year and use it yourself for the other four months, you can put the full annual cost of insuring the property in box 5.2. If you do, you should add back one-third of that cost in box 5.10.

If you are in any doubt whether a particular expense needs to be apportioned between business and private use, ask your Inland Revenue office or tax adviser.

- Capital allowances and balancing charges

boxes 5.11 and 5.13 In working out your profit from furnished holiday lettings you must not deduct:

- the cost of buying, altering, building, or installing or improving fixed assets (for example, property and machinery), **or**
- depreciation or any losses that arise when you sell them.

Instead you may be able to claim **capital allowances** in box 5.13. These **reduce** a profit or **increase** a loss. An adjustment, known as **a balancing charge**, may arise when you sell, give away or stop using an item in your business. Enter the amount of balancing charges in box 5.11. These **increase** your profits or **reduce** your loss.

Your tax adviser, if you have one, will be able to tell you how to calculate capital allowances and balancing charges.

If you do not have a tax adviser, or want to check your calculation, ask the Orderline for *Help Sheet IR250: Capital allowances and balancing charges in a rental business*.

Losses

You can use any loss shown in box 5.15 to reduce the amount of tax you pay on other income or gains in this or earlier years. This is because any loss on your furnished holiday lettings is treated as though it arose in a business that you carry on.

Help Sheet IR227: Losses explains the different ways that you can claim to set losses incurred in a business against your other income. The same rules apply to any loss on your furnished holiday lettings.

- Loss offset against 2000-2001 total income

box 5.16 Enter in box 5.16 the amount you want to claim against other income of this year. To set it against gains include it in box 8.5 of the Capital Gains Pages.

- Loss carried back

box 5.17 Enter in box 5.17 the amount of the loss you are claiming against other income and gains for an earlier year. Even if you have already claimed to offset this loss, you should still include it in box 5.17 (and make a note of the amount in the 'Additional information' box on page 8 of your Tax Return).

- Loss offset against other income from property

box 5.18 Any part of the total shown in box 5.15 not used in boxes 5.16 or 5.17, or 8.5 of the Capital Gains Pages, can be set against other income from land and property in the year ended 5 April 2001. Do this by entering in box 5.18 the figure in box 5.15 *minus* any figure in boxes 5.16 and 5.17. Copy the result to box 5.38.

Other property income

If you own land or property in the UK and enter into any transaction which produces rents or other receipts from that land or property, you are treated as operating a rental business. You are taxable on the profits of that business.

The concept of a rental business is broad. The rental profit or loss takes account of all rental and similar income, and related expenses, resulting from the exploitation of land or property in the UK. All activities by which you derive income from land and property in the same capacity are treated as activities of the one business (rental income you receive as a trustee, personal representative or partner is not in the same capacity). It does not matter whether you have a single property or numerous properties. All form a single business.

The guidance below tells you what income and what expenses should be included in the profits or losses of your rental business.

Income

- Furnished holiday lettings profits

box 5.19 To fill in this box you will need to have filled in boxes 5.1 to 5.18 first. Follow the guidance on furnished holiday lettings on page LN2.

- Rents and other income from land and property

box 5.20 Enter in box 5.20 the total of all income arising to your business from any land and property you have in the UK, except income arising from furnished holiday lettings, chargeable premiums and reverse premiums (see notes on boxes 5.22 and 5.22A on page LN5).

Income includes receipts in cash or in kind. It is taxable when it is earned, even if you do not receive the money or goods until later. Include in box 5.20 any rent you receive (or you will receive) after 5 April 2001 which is payment for the year ended 5 April 2001 (because it is paid in arrears). **Exclude** from box 5.20 any rent you have received which relates to any period after 5 April 2001 (because it is paid in advance). It must be included in your income for the year to which it relates. **Make sure you do not count money you received in this year if it was included in an earlier year.**

If you receive income from wayleaves and you also receive rents from some or all of the land to which the wayleaves relate, include

the wayleaves at box 5.20. If you are carrying on a trade and the land to which the wayleaves relate is used in that trade, include the wayleaves as part of your trading income in the Self-employment Pages. Otherwise, the wayleaves should be included in boxes 13.1 and 13.3 on page 4 of your Tax Return.

Generally, most income will be rental income from a tenancy, or from leasing or licensing agreements over your land or property. Rental income from furnished, unfurnished, commercial and domestic accommodation, and from any land, should all be included in the overall total. If your property is let furnished, any sums that a tenant may pay for the use of furniture will be taxable as income of your business. All this income should be added together and entered in box 5.20.

Property let jointly

If you own and let property jointly with one or more other persons, include only your share of the income in box 5.20 and your share of the expenses in boxes 5.24 to 5.29.

If you receive notice of your share after expenses have been deducted, enter your share of any profit in box 5.20 (leaving boxes 5.24 to 5.29 blank) or of any loss in box 5.29. Tick box 5.47 to show that the Land and Property Pages include details of shared property, and enter the name and address of the person nominated to keep records in the 'Additional information' box on page 8 of your Tax Return.

Receipts other than rent

Receipts other than rents are also taxable. Some of the main categories are:

- rent charges, ground rents and feu duties
- the annual value of properties not let at a commercial rent where a one-estate election is in force - see the notes for box 5.46 on page LN8
- income arising from the grant of sporting rights
- income arising from letting others tip waste on your land
- income from letting someone use your land when no lease or licence is created; for example, receipts from a film crew who pay to film on your land
- grants received from local authorities towards the cost of repairs of a property - see the notes for box 5.25 on page LN6 for guidance on claiming relief for expenses on repairs
- income from land and property from any Enterprise Zone Trusts (include interest from Enterprise Zone Trusts in boxes 10.12 to 10.14 on page 3 of your Tax Return).

This list is not comprehensive. If you do not know whether to include a particular sum, ask your Inland Revenue office or tax adviser. If you are not resident in the UK and your agent or a tenant has accounted for tax on your property income, you should enter the gross income before deduction of tax in box 5.20. Put the tax in box 5.21.

- Tax deducted

box 5.21 Certain income from property is received after tax has been deducted and accounted to the Inland Revenue. The main type of income from which tax may be deducted is rental income received by a landlord whose usual place of abode is outside the UK.

If the income in box 5.20 includes payments to you from which tax has been deducted, you should enter the amount of tax deducted in box 5.21.

You should ensure that the amount of income entered in your Tax Return is the total payment before tax has been deducted. In other words it should be the total amount you received plus the tax that has been deducted. It should not be just the amount you received after the tax has been deducted.

Non-residents

If you are not resident in the UK you should complete the Non-residence Pages available from the Orderline.

Your UK letting agent (or tenant, if you have no agent) should account for basic rate tax on your rental income unless they have written authority from the Inland Revenue to pay it to you gross.

If they have accounted for tax, they must give you a certificate showing the amount of tax. Enter this figure in box 5.21.

You can apply to receive this income gross. Ask the Orderline for leaflet *IR140: Non-resident landlords, their agents and tenants.*

- Chargeable premiums

box 5.22 The income of your rental business may include premiums paid for the grant of a lease and certain other lump sum payments and other forms of consideration, given in connection with the right to possession of a property. These are taxable on a special basis.

Broadly, for leases over 50 years the entire premium is treated as a capital receipt and so does not form part of your business's income. For leases of up to 50 years the premium is treated as partly capital and partly rent; only the rent is taxable.

Use the Working Sheet below to arrive at the taxable amount.

Working Sheet for chargeable premiums - leases up to 50 years

Premium	**A**	£
Number of complete periods of 12 months in the lease *(ignore the first 12 months of the lease)*	**B**	
A multiplied by B	**C**	£
C divided by 50	**D**	£
A *minus* D	**E**	£

Copy the figure in box E to box 5.22.

If you are in doubt about whether any payment you have received constitutes a premium, ask your Inland Revenue office or your tax adviser. There can be a premium charge where you have assigned a lease but not required the payment of a premium. If you have assigned a lease and are not sure of the consequences of that assignment, ask your Inland Revenue office or tax adviser.

- Reverse premiums

box 5.22A If you receive a payment or other benefit as an inducement to take an interest in any property, other than your main residence, for letting, the receipt will be chargeable as income from property. If you receive an inducement in respect of premises from which you are to trade, see the note for box 3.91 on page SEN9 of the Notes on Self-employment.

If you are in any doubt about the proper tax treatment of a reverse premium, ask your Inland Revenue office or tax adviser.

Expenses

If your total property income in the year, including furnished holiday letting income, before expenses is less than £15,000 annually, you do not have to list expenses separately. Instead, put total expenses in box 5.29.

The following guidelines give an indication of the main types of expenses that are likely to arise in a rental business and what usually can, or cannot, be claimed as a deduction.

Non-allowable expenses:

- personal expenses (see the notes for box 5.32 on page LN7)
- capital costs, such as expenses relating to the purchase of the land or property you intend to let, or the cost of purchasing machinery, furnishings or furniture
- any loss you make on the sale of a property.

Allowable expenses:

- in general, any costs you incur for the sole purpose of earning business profits
- you may be able to claim capital allowances or a renewals deduction on the cost of buying a capital asset, or a wear and tear allowance for furnished lettings.

Remember that the expenses must be allocated to the correct Return period and it may be necessary to apportion certain expenses to arrive at the correct amount.

Make sure you do not put in boxes 5.24 to 5.29 any expenses you have already included in boxes 5.2 to 5.7.

- Rent, rates, insurance, ground rents etc.

box 5.24 Any rent you pay under a lease of a property that you let to someone else can be deducted in working out your business profits.

Other expenses connected with the property such as business rates, Council Tax, water rates, ground rents or feu duties are also allowable. Enter in box 5.24 the total of any such expenses incurred in the period for all properties in your business.

Include in box 5.24 any expenses you must incur as landlord to insure any let property and its contents. Insurance against loss of rents is also an allowable cost but you must include in box 5.20 any income you receive as a result of taking out such an insurance. Insurances that extend beyond your rental business, such as personal policies or those insuring your private belongings, are not allowable costs.

- Repairs, maintenance and renewals

box 5.25

Repairs and maintenance

Expenses that prevent the property from deteriorating can be deducted as a repair. Examples include exterior and interior painting, stone-cleaning, damp treatment, roof repairs, furniture repairs and repairs to lifts and other machines that form part of the property.

Where maintenance and repairs of property are made unnecessary by improvements, additions or alterations to the property, part of the outlay equal to the estimated cost of the maintenance and repairs can be claimed as an expense. No expense can be claimed, however, where:

- the alterations etc., are so extensive as to amount to the reconstruction of the property, **or**
- there is a change in the use of the property which would have made the maintenance or repairs unnecessary.

If you are in any doubt whether any work undertaken on the property constitutes a repair or maintenance, ask your Inland Revenue office or tax adviser.

Renewals

If you have not claimed capital allowances or 'wear and tear' allowances (see the notes for box 5.37 on page LN7) for furniture, furnishings or machinery supplied with your property, you can claim the costs as an expense. You can include the renewal of small items such as knives and forks. If you opt for a renewals deduction you may deduct the cost of replacing any such equipment, but not the cost of the original purchase. Deduct from the replacement cost any sum received for the item you have scrapped or sold. Also deduct any part of the replacement cost that represents an improvement or addition to the original item.

Enter in box 5.25 the total of any such expenses on renewals (and repairs and maintenance) incurred in the period for all the properties in your business. If you are in doubt about what sum to claim as a renewal, ask your Inland Revenue office or tax adviser.

- Finance charges, including interest

box 5.26 Include in box 5.26 expenses that relate to the financial side of your rental business. Costs incurred in obtaining a loan to buy a property that you let are allowable as a deduction. So is any interest incurred on the loan (enter the interest in box 5.26 **not** in box 15.3 on page 5 of your Tax Return). If you are unsure whether costs are allowable as a deduction, ask your Inland Revenue office or tax adviser.

- Legal and professional costs

box 5.27 Below are some examples of expenses you cannot deduct and those you may.

Non-allowable expenses:

- expenses in connection with the first letting or sub-letting of a property for **more than one year**. These include, for example, legal expenses (such as the cost of drawing up the lease), agents' and surveyors' fees and commission
- any proportion of the legal etc. costs that relates to the payment of a premium on the renewal of a lease
- fees incurred in obtaining planning permission, or on the registration of title when buying a property.

Allowable expenses:

- expenses for the let of **a year or less**
- management fees relating to the on-going costs of letting (for example, rent collection etc.)
- the normal legal and professional fees you incur on the renewal of a lease, if the lease is for less than 50 years
- professional fees incurred evicting an unsatisfactory tenant, with a view to re-letting, or those on an appeal against a compulsory purchase order
- professional fees in drawing up accounts.

If you are unsure whether any legal or professional fee is allowable as a deduction, ask your Inland Revenue office or tax adviser.

- Costs of services provided, including wages

box 5.28 If, in addition to letting a property, you provide any service to your tenant (such as gardening, porterage, cleaning or even something like communal hot water), that requires a degree of maintenance and thus expense, you can claim the cost of these services to the extent that they are provided wholly and exclusively for the purposes of the letting.

You should include in box 5.28 the total of any expenses for all properties and their associated services. If you receive any income for any service you provide, this should be included in box 5.20.

- Other expenses

box 5.29 Enter in box 5.29 all expenses incurred wholly and exclusively for the purpose of your rental business that are not already included in boxes 5.24 to 5.28. Examples include the costs of rent collection, advertising for tenants, travelling solely for business purposes, stationery, telephone calls and other miscellaneous expenses.

Remember though that personal expenses are **not** allowable. If you spend money on something only partly used for your property, you must only enter the amount expended for business purposes in box 5.29. Alternatively, enter the whole amount in box 5.29, and in box 5.32 enter the proportion of the cost that represents your personal use.

Lease premium relief

Where you (or an earlier tenant) paid a premium to your landlord when your lease was granted, and you are sub-letting the property in your property business, you may be able to claim a deduction for part of the premium paid. The relief for premiums paid is only due on amounts which are chargeable on your landlord as income (or would be, if your landlord was liable to tax). If you think you are entitled to a deduction for a premium you have paid, ask your Inland Revenue office or tax adviser. The amount of the allowable deduction should be entered in box 5.29. The notes for box 5.22 on page LN5 explain how to calculate the part of the premium which is taxable on your landlord as income.

Tax adjustments

To arrive at your taxable income (or the loss allowable for tax purposes) you need to make certain adjustments to the net profit or loss arising in the year in box 5.31. The main adjustments are listed below. There are also more unusual situations which require different calculations - see the notes for box 5.46 on page LN8.

- Private use

box 5.32 Private and personal expenses are not allowable. If you spend money on something used only partly for your rental business and partly for a non-business reason you must either:

- enter the amount expended for business purposes in boxes 5.24 to 5.29, **or**
- enter the whole expenses in those boxes and in box 5.32 the proportion of the cost that represents your personal use or the non-business element.

For example, if you let out a property for only eight months in a year and use it yourself for the other four months, you can put the full annual cost of insuring the property in box 5.24. If you do, you should add back one-third of that cost in box 5.32.

If you are in any doubt whether a particular expense needs to be apportioned between business and private use, ask your Inland Revenue office or tax adviser.

- Capital allowances and balancing charges

boxes 5.33 and 5.36 In working out your rental business profits you must not deduct:

- the cost of buying, altering, building, installing or improving fixed assets, **or**
- depreciation or any losses that arise when you sell them.

Instead you may be able to claim **capital allowances** in box 5.36. These **reduce** a profit or **increase** a loss. An adjustment, known as a **balancing charge**, may arise when you sell an item, give it away or stop using it in your business. Enter the amount of balancing charges in box 5.33. These **increase** your profits or **reduce** your loss.

Include any capital allowances or balancing charges from any investments you may have in Enterprise Zone Trusts.

If you let any residential accommodation (such as a house or flat) in the UK (other than as a 'furnished holiday letting' - see page LN2), capital allowances are not available on any machines, furniture or furnishings supplied, nor on any fixtures which are part of the building. However, see the notes on box 5.37 (10% wear and tear) in the next column.

Your tax adviser, if you have one, will tell you how to calculate capital allowances and balancing charges.

If you do not have a tax adviser, or want to check your calculation ask the Orderline for *Help Sheet IR250: Capital allowances and balancing charges in a rental business*.

- Rent a Room exempt amount

box 5.35 Enter in box 5.35 the Rent a Room exempt amount if you are claiming Rent a Room exemption or relief. See the notes on page LN2.

- 10% wear and tear

box 5.37 If you let any residential accommodation (such as a house or flat) in the UK (other than as a 'furnished holiday letting' - see page LN2), capital allowances are not available on any machines, furniture or furnishings supplied, nor on any fixtures which are part of the building. Instead, you may claim a deduction for either:

- the net cost of replacing a particular item of furniture or furnishings, but not the cost of the original purchase (see the notes on page LN6 about renewals), **or**
- an allowance amounting to 10% of the rent received after deducting charges or services that would normally be borne by a tenant but which are, in fact, borne by you (for example, Council Tax). This allowance, which is known as wear and tear allowance, is accepted as broadly covering the cost of normal renewals of furniture.

Capital allowances can be claimed if you let furnished accommodation other than a dwelling house. If capital allowances can be claimed, you cannot claim the 10% wear and tear allowance.

- Furnished holiday lettings losses

box 5.38 Copy into box 5.38 the figure you have entered in box 5.18 on Page L1 of your Land and Property Pages. If box 5.18 is zero or blank, leave box 5.38 blank.

Losses etc

The way tax relief is given for any losses depends on your individual circumstances. The following guidance deals with the more common types of loss relief and assumes that you do not own either an agricultural estate or 'land managed as one estate' - see the notes for box 5.46 on page LN8.

In general, any rental business loss you make is available to be carried forward and set against your future rental business profits. Read the notes on box 5.45 on page LN8. However, you can get sideways relief against your general income for that part of a loss made up of capital allowances.

- Loss brought forward from previous year

box 5.42 Enter the total loss brought forward from the year ended 5 April 2000, relating to all properties in your property business. Exclude from this figure any losses brought forward from 1999-2000 that you are now setting against total income in 2000-2001. Include them in box 5.44 and read the note for box 5.44 on page LN8.

box 5.43 If you entered a figure of profit in box 5.40, you should deduct any figure in box 5.42 to arrive at your total taxable profit for the year. If any losses brought forward in box 5.42 are greater than the profits in box 5.40, enter '0' in box 5.43 and put the balance of the losses, after subtracting the profits, in box 5.45.

If your losses brought forward do not exceed the profits, subtract the figure in box 5.42 from the figure in box 5.40, and enter the difference in box 5.43.

- Loss offset against total income

box 5.44 If you let a dwelling house, including a flat, as furnished accommodation in the UK (other than as furnished holiday accomodation), losses incurred cannot be set against your other income for the year. Enter any of these losses in box 5.45.

If you have not claimed capital allowances this year, and you had rental business profits last year, you should ignore box 5.44 and go to box 5.45. Sideways relief (against your other income for 2000-2001) is limited to whichever is the lowest of the following three figures:

- the amount of capital allowances in box 5.36, and after deduction of any balancing charges in box 5.33, **or**
- the amount of the loss in box 5.41, **or**
- the amount of your other income.

So, if your capital allowances do not exceed the balancing charges entered in box 5.33, no sideways relief is available even though you have made a loss in box 5.41.

But, for example, if you have capital allowances of £3,000 and a balancing charge of £1,000, you can claim sideways relief up to £2,000, depending on the amount of loss you have made (in box 5.41) and the total general income against which it can be set.

If you want to set the loss against your other income of the same year, that is, the year ended 5 April 2001, enter the amount of the relief in box 5.44 together with any loss brought forward from last year (see the notes for box 5.42 on page LN7).

You can deduct the loss entered in box 5.41 from your other income for the year ended 5 April 2002 if it derives from an excess of capital allowances over balancing charges and you have not already used that excess against 2000-2001 income as detailed above. **Remember to include the loss in your 2001-2002 Tax Return.**

- Loss to carry forward to following year

box 5.45 You can carry forward any unused losses and set them against future profits from your rental business. To arrive at the total remaining losses you have to carry forward to the year ended 5 April 2002:

- **if you made a profit in box 5.40 and have unused losses brought forward from an earlier year**, enter in box 5.45 the balance of losses after subtracting the profits in box 5.40
- **if you made a loss in box 5.41**, subtract from this figure any part of the loss used against general income in box 5.44, and add the result to the figure of earlier losses brought forward in box 5.42. Enter the total in box 5.45.

- Pooled expenses from 'one-estate election' carried forward

box 5.46 If you own an agricultural estate or an estate over which there exists a valid one-estate election, ask the Orderline for *Help Sheet IR251: Agricultural land and 'land managed as one estate'* to see whether any entry is needed in box 5.46. Not many landowners are affected by the special rules applying to these types of property, but if you do own such an estate *Help Sheet IR251* will show you how to include this type of rental business income and expenses. It also explains the special rules about any losses arising.

Any excess expenses in box 5.46 should be carried forward as an estate expense for 2001-2002.

- Property let jointly

box 5.47 Tick box 5.47 if you have included in boxes 5.1 or 5.20 any income from joint furnished holiday lettings or from any other property let jointly (see the notes on pages LN2 and LN5).

- Property income ceased

box 5.48 Tick box 5.48 if **all** property income ceased in the year to 5 April 2001 (for example, you sold all properties previously let) **and** you don't expect to start receiving such income again, in the year to 5 April 2002.

These notes are for guidance only, and reflect the position at the time of writing. They do not affect any rights of appeal.